

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 7394**  
**BILL NUMBER: HB 1173**

**NOTE PREPARED: Mar 29, 2007**  
**BILL AMENDED:**

**SUBJECT:** State Police Pension Benefits.

**FIRST AUTHOR:** Rep. Cochran  
**FIRST SPONSOR:** Sen. Kruse

**BILL STATUS:** CR Adopted - 2<sup>nd</sup> House

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State

**Summary of Legislation:** This bill provides a 1% cost-of-living adjustment (COLA) for retirees of the State Police 1987 Benefit System. It provides a COLA equal to the greater of: (1) the supplemental benefit; or (2) 1% of the retiree's monthly pension benefit; for retirees of the State Police Pre-1987 Benefit System. The bill revises the calculation of the supplemental benefit.

**Effective Date:** July 1, 2007.

**Explanation of State Expenditures:** (Revised) The fiscal impact of this proposal appears below.

	As Provisions Apply to the 1987 Benefit System	As Provisions Apply to the Pre-1987 Benefit System	Supplemental Benefits
Increase (Decrease) in Actuarial Liability	\$968,000	\$542,000	\$11.7 M
Increase in Annual Funding	\$74,700	\$41,800	(see below)
Increase in Annual Funding as a % of Payroll	0.1%	0.1%	(see below)

Since the supplemental benefits are paid on a "pay-as-you-go" basis, the following table provides a rough estimate of the increase in supplemental benefits that would be payable over the next five years as a result of this bill.

<u>Plan Year</u>	<u>Change in Expected Benefit Payouts</u>
2007-2008	\$343,200
2008-2009	\$519,900
2009-2010	\$547,400
2010-2011	\$558,700
2011-2012	\$588,500

[Revised] The above are estimates based on 2006 data.

The funds affected are the state General Fund (50%) and the Motor Vehicle Highway Account (50%).

*Background Information:* SECTION 1 of the proposal increases benefits paid to current retired members of the State Police 1987 Benefit System. The increase is effective July 1, 2007, and is equal to 1% of the participant's benefit, but not greater than 1% of the maximum basic monthly benefit payable to a retired trooper (\$1,984) effective July 2, 2006). Please note that similar bills in prior years have specified that this increase would apply only to the benefits of retired or disabled members of the State Police 1987 Benefit System. This bill does not make a distinction between members of the 1987 Benefit System and member of the Pre-1987 Benefit System. In the data below, the impacts have been separated as it applies to the two systems. The same benefit increase of \$1,984 has been applied to the benefits payable to the members of the Pre-1987 Benefit System even though the maximum monthly benefit payable to members of the Pre-1987 Benefit System is limited to the third year trooper rate.

SECTIONS 2 and 3 change the way the supplemental benefit is calculated for members of the State Police Pre-1987 Benefit System. This change would calculate the supplemental benefit by applying the appropriate percentage (between 50% and 100%) to the difference between the current 20-year benefit and the 20-year benefit at the later of July 1, 1972, or the date of retirement. The benefit is currently calculated by applying the same percentage to the difference between the current 20-year benefit and the participant's actual monthly benefit.

SECTION 4 grants an increase of 1% of total benefit (monthly pension plan plus any supplemental benefits) to a retired or disabled member of the State Police Pre-1987 Benefit System. The increase will be effective July 1, 2007. This increase is a guaranteed minimum that will be effective for retired members who are not eligible for supplemental benefits or are eligible for supplemental benefits and receive an increase in supplemental benefits less than 1% of total benefits. Please note that it is understood the language in this section means that the increase in benefits effective July 1, 2007, will be greater than 1% of the monthly pension amount (plus post-retirement increases) paid immediately prior to July 1, 2007, or the increase in supplemental benefits effective July 1, 2007, calculated based on sections 3 and 4 of the bill.

It has been assumed that the increase in SECTION 1 of this proposal would be payable from the Pension Trust and the increases in SECTIONS 2, 3, and 4 would be payable as supplemental benefits.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** State Police.

**Local Agencies Affected:**

**Information Sources:** Doug Fiddler of McCready & Keane, Inc., actuaries for the State Police, 317-576-1508.

**Fiscal Analyst:** James Sperlik, 317-232-9866.

**DEFINITIONS**

Actuarial Liability - The actuarial liability of a retirement system at any time is the excess of the present value of all benefits thereafter payable under the system over the present value of future normal costs.

Funding - A systematic program under which assets are set aside in amounts and at times approximately coincident with the accruing of benefit rights under a retirement system.

Pay-As-You-Go Method, sometimes called current disbursement cost method, is a method of recognizing the costs of a retirement system only as benefits are paid.

Supplemental Benefits - Benefits provided by a pension plan in addition to regular retirement benefits. Supplemental benefits vary according to the terms of a plan and include such items as the payment of benefits in the event of termination, death, disability, or early retirement.

Unfunded Actuarial Liability (sometimes called the unfunded liability) of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.